

## Message Text

SECRET

PAGE 01     SANTIA 10075 01 OF 02 182332Z

63

ACTION SY-05

INFO OCT-01 ARA-06 SYE-00 A-01 OPR-02 ISO-00 SSO-00 /015 W

----- 116215

O 182115Z OCT 76

FM AMEMBASSY SANTIAGO

TO SECSTATE WASHDC IMMEDIATE 1845

S E C R E T SECTION 1 OF 2 SANTIAGO 10075

STADIS////////////////////////////////////

FOR ARA AND A/SY

E. O. 11652: XGDS

TAGS: ASEC, PFOR

SUBJECT: MALFEASANCE BY SANTIAGO FSLE - EVIDENCE OF LATIN AMERICAN  
SMUGGLING OPERATION POSSIBLY INVOLVING U.S. EMBASSIES

1. SUMMARY. EMBASSY MALFEASANCE INVESTIGATION OF FSLE, ANIBAL OLIVARES, HAS DEVELOPED OVERWHELMING EVIDENCE OF HIS INVOLVEMENT IN A WHISKEY-CIGARETTE SMUGGLING RACKET. WHEN CONFRONTED, OLIVARES ADMITTED HIS GUILT; DESCRIBED THE MO OF THE SMUGGLING RING HEADED BY URUGUAYAN NATIONAL, ALBERTO FUENTES Y SOMALO; IMPLICATED ONE OTHER FSLE AND US MILITARY ENLISTED PERSONNEL FORMERLY ASSIGNED TO THE EMBASSY (SEPTTEL); ALLEGED THAT THE ILLEGAL OPERATIONS WERE AIDED BY WORKING-LEVEL GOC PERSONNEL (CARABINEROS, CUSTOMS, FOREIGN OFFICE AND OTHERS), AND PROTECTED AT HIGHER GOVERNMENT LEVELS; AND STATED THAT THE OPERATIONS OF FUENTES Y SOMALO WERE VERY LARGE-SCALE INVOLVING MOST COUNTRIES IN SOUTH AMERICA.

2. BY DOCUMENTARY EVIDENCE AND HIS OWN ADMISSION, OLIVARES IS GUILTY OF MALFEASANCE AND HAS BEEN TERMINATED FOR CAUSE. THE OTHER ELEMENTS IN THE CASE ARE BASED ON HIS ALLEGATIONS WHICH WE TEND TO CREDIT SINCE HE HAS LITTLE TO GAIN BY TELLING US "ALL" AND VERY CLEARLY FEARS FOR HIS LIFE; HE HAS MAINTAINED CONTACT WITH EMBOFFS BUT IS NOW CONSIDERING GIVING HIMSELF UP TO GOC AUTHORITIES. OUR INVESTIGATION CONTINUES. THIS CABLE REVIEWS THE INVESTIGATION TO DATE, SETS OUT THE EMBASSY'S CONCLUSIONS

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SECRET

PAGE 02     SANTIA 10075 01 OF 02 182332Z

AND RECOMMENDATIONS, AND REQUESTS DEPARTMENTAL GUIDANCE PARTICULARLY

WITH REGARD TO HOW THE CASE IS HANDLED WITH THE GOC AND STEPS TO BE TAKEN, IF ANY, REGARDING OTHER US EMBASSIES IN SOUTH AMERICA. END SUMMARY.

3. INVESTIGATION. (RSS IS GENERALLY AWARE OF WHAT FOLLOWS.) FROM FEBRUARY TO JUNE 1976, FSO DON BRYFOGLE, SERVING TEMPORARILY IN ADMIN AS PART OF HIS JUNIOR OFFICER ROTATIONAL TRAINING PROGRAM, BECAME SUSPICIOUS OF THE HANDLING OF EMBASSY CUSTOMS MATTERS BY LOCAL EMPLOYEES. BRYFOGLE REVIEWED AND ATTEMPTED TO CORRECT VARIOUS ASPECTS OF THESE OPERATIONS. HE REPORTED HIS SUSPICIONS AND ACTIONS TO GSO OROZCO AND ADMIN COUNSELOR TAMBONE. CONCURRENTLY FSLE LEGAL ADVISER MALENA SAAVEDRA AND EMBASSY COMMISSARY MANAGER VIC PEREZ VOICED SUSPICIONS CONCERNING THE OPERATIONS OF THE GENERAL SERVICES CUSTOMS SECTION. ALL THREE INDIVIDUALS WERE INTERVIEWED BY RSO ALAN GOLACINSKI AND EACH SEPARATELY STATED HIS SUSPICION THAT ANIBAL OLIVARES, THEN CHIEF CUSTOMS CLERK IN THE GENERAL SERVICES SECTION, WAS USING HIS POSITION FOR PERSONAL PROFIT.

4. THE RSO DECIDED THAT THESE ALLEGATIONS WARRANTED A FULL INVESTIGATION, PARTICULARLY WHEN IT BECAME APPARENT THAT OLIVARES'S STANDARD OF LIVING WAS WELL BEYOND HIS INCOME. A TASK FORCE COMPOSED OF THE DCM, ADMIN COUNSELOR, GSO AND RSO WAS FORMED AND THE LATTER TWO PROCEEDED WITH THE INVESTIGATION.

5. IN EARLY JULY RSO AND GSO INITIATED A THOROUGH SEARCH OF THE FILES MAINTAINED IN THE GENERAL SERVICES SECTION BY MR. OLIVARES, PARTICULARLY THE LOG BOOK CONTAINING A CONSECUTIVE LISTING BY NUMBER OF ALL FREE ENTRY DECREES REQUESTED BY THE EMBASSY AND THE FILE OF COPIES OF ALL DECREES REQUESTED BY US AND APPROVED BY THE GOC FOREIGN OFFICE. CERTAIN NUMBERS WERE MISSING IN THE LOG BOOK AND CORRESPONDING DECREES WERE MISSING FROM THE FILE. THE RSO AND GSO CHECKED ALL COMMISSARY CHIPMENTS AGAINST DECREES AND NUMBERS AND FOUND THAT ALL SHIPMENTS TO THE COMMISSARY WERE ACCOUNTED FOR. THEREFORE, THE NUMBERS UNACCOUNTED FOR IN THE GSO LOG WERE NOT FOR GOODS WHICH WERE, IN FACT, ORDERED, PAID FOR OR RECEIVED BY THE COMMISSARY. THE INVESTIGATION THEN LED TO THE FOREIGN OFFICE WHERE COPIES OF THE DECREES FOR THE MISSING NUMBERS WERE REQUESTED. THE FOREIGN OFFICE SUPPLIED THREE DECREES

SECRET

SECRET

PAGE 03     SANTIA 10075 01 OF 02 182332Z

SIGNED AND STAMPED BY THE EMBASSY FOR SHIPMENTS OF ALCOHOLIC BEVERAGES AND CIGARETTES TO THE U.S. EMBASSY COMMISSARY BY AIR FROM ARGENTINA. THE GOODS IN QUESTION WERE NOT LISTED AS RECEIVED BY THE COMMISSARY. THE GSO AND RSO APPROACHED CHILEAN CUSTOMS AND CANVASSED LOCAL AIRLINES IN AN ATTEMPT TO OBTAIN AIRWAY BILLS AND INVOICES TO CORRESPOND TO THE PPHONY DECREES. TWO AIRWAY BILLS WERE OBTAINED CONFIRMING THAT SHIPMENTS OF WHISKEY AND CIGARETTES HAD BEEN MADE IN THE EMBASSY'S NAME.

MOREOVER, IN EACH CASE THE GOODS HAD BEEN SHIPPED BY AIR FROM ARGENTINA TO THE IMPORT FIRM OF ALBERTO FUENTES Y SOMALO, FOR THE U.S. EMBASSY COMMISSARY ALTHOUGH WE HAD CEASED DEALING WITH THIS FIRM THREE YEARS AGO. THESE SHIPMENTS HAD NEVER BEEN ORDERED, PAID FOR, OR RECEIVED BY OUR COMMISSARY.

6. IN EARLY SEPTEMBER AN FSLE IN THE B&F SECTION TOLD THE EMBASSY B&F OFFICER, WHO HAD SEEN AN UNMARKED CASE OF WHISKEY IN THE LOCAL'S HOME, THAT HE (THE LOCAL) PURCHASED THE WHISKEY FROM AN FSLE EMPLOYED IN THE GENERAL SERVICES SECTION OF THE EMBASSY. UPON REQUEST, THE FSLE IN THE B&F SECTION FURNISHED THE RSO A SWORN STATEMENT THAT ANIBAL OLIVARES AND LUIS BLAMEY, BOTH FSLES IN THE GENERAL SERVICES SECTION, HAD SOLD HIM WHISKEY IN CASE LOTS OVER THE PAST SEVERAL YEARS. FURTHER, HE STATED THAT OLIVARES' SON AND ONE DEMITRIO CORREA, A CHILEAN MERCHANT WHO HAS DEALT WITH THE U.S. EMBASSY COMMUNITY OVER THE YEARS, WERE ALSO INVOLVED IN THE SALE OF CONTRABAND ALCOHOLIC BEVERAGES.

7. ON THE BASIS OF THE DOCUMENTARY EVIDENCE FSLE ANIBAL OLIVARES WAS CALLED IN FOR AN EXPLANATION BY THE RSO AND GSO (FSLE LUIS BLAMEY WAS AND STILL IS ON LEAVE). WHEN CONFRONTED WITH THE EVIDENCE AGAINST HIM, OLIVARES ADMITTED THAT HE HAD SOLD OVER THE YEARS ABOUT 100 CASES OF WHISKEY BUT MAINTAINED THAT HIS SUPPLIERS WERE USAF CREW MEMBERS ENGAGED IN PERIODIC SUPPORT FLIGHTS TO CHILE. (THIS ASPECT OF THE CASE WILL BE THE SUBJECT OF SEPTTEL WHICH WILL NOT BE STADIS.) HE DENIED INVOLVEMENT IN A PHONY VREE ENTRY DECREE SCHEME OR CONTACT WITH ALBERTO FUENTES Y SOMALO. OLIVARES WAS INFORMED THAT BASED ON THE EVIDENCE IN THE EMBASSY'S POSSESSION, AND HIS OWN ADMISSION OF HAVING DEALT ON THE BLACK MARKET, HIS SECURITY CLEARANCE WAS DITHDRAWN AND HE WAS TERMINATED WITH CAUSE. AS HE WAS BEING ESCORTED FROM THE EMBASSY, OLIVARES REQUESTED TO MEET WITH THE GSO THE  
SECRET

SECRET

PAGE 04     SANTIA 10075 01 OF 02 182332Z

NEXT DAY WITHOUT THE RSO BEING PRESENT.

8. ON OCTOBER 15 AND 16, THE GSO MET WITH OLIVARES; THE RSO ATTENDED THE MEETING OF OCTOBER 16. DURING THESE TWO MEETINGS FSLE OLIVARES STOPPED ALL PRETENSE OF INNOCENCE, WAS VISIBLY SHANEN, AND

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PAGE 01 SANTIA 10075 02 OF 02 182350Z

63

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----- 116370

O 182115Z OCT 76

FM AMEMBASSY SANTIAGO

TO SECSTATE WASHDC IMMEDIATE 1846

S E C R E T SECTION 2 OF 2 SANTIAGO 10075

STADIS////////////////////////////////////

FOR ARA AND A/SY

CONVEYED THE DETAILS OF HIS PARTICIPATION IN A MULTI-NATIONAL  
SMUGGLING OPERATION OF ALCOHOLIC BEVERAGES AND CIGARETTES.

OLIVARES STATED THE FOLLOWING:

- OLIVARES ADMITTED HAVING PREPARED DURING THE LAST TWO YEARS  
AT LEAST TEN PHONY FREE ENTRY DECREES IN THE NAME OF THE EMERICAN  
EMBASSY WHICH WERE DELIVERRED TO MR. ALBERTO FUENTES Y SOMALO.  
OLIVARES COMPLETED THE DECREES, PUT THE EMBASSY STAMPS ON  
AND TURNED THE DECREES OVER TO FUENTES WHOSE PEOPLE FORGED  
THE ADMIN COUNSELOR'S SIGNATURE. THE DECREES WERE THEN RETURNED  
TO OLIVARES AND HE TOOK THEM TO THE FOREIGN MINISTRY. WHEN THE  
DECREES CAME BACK FROM THE FOREIGN MINISTRY APPROVED,  
OLIVARES HANDED THEM OVER TO FUENTES.

- FSLE LUIS BLAMEY WAS HIS ACCOMPLICE AND THEY RECEIVED  
APPROXIMATELY U.S. DOLLARS 1,000 FROM MR. FUENTES FOR EACH FREE ENTRY

DEGREE SUPPLIED. THEY DIVIDED THE MONEY EQUALLY; ON OCCASION  
THEY ALSO RECEIVED VARIOUS CASES OF WHISKEY AS PAYMENT FROM MR.  
RUENTES.

- THE WHISKEY AND CIGARETTES CAME FROM URUGUAY. ALBERTO  
FUENTES Y SOMALO IS URUGUAYAN AND HAS SIMILAR ILLEGAL OPERATIONS  
IN ARGENTINA, URUGUAY AND VARIOUS OTHER SOUTH AMERICAN COUNTRIES.  
FUENTES TRAVELS VERY FREQUENTLY.

- OLIVARES' 22 YEAR OLD SON ALSO HELPED SELL WHISKEY  
ON OCCASION. BLAMEY'S OLDER BROTHER, WHO IS A CARABINERO MAJOR,  
ALSO HELPED DISPOSE OF WHISKEY AND PROVIDED ASSISTANCE TO  
MR. FUENTES WHILE THE MAJOR WAS PREVIOUSLY IN CHARGE OF CARABINEROS

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SECRET

PAGE 02 SANTIA 10075 02 OF 02 182350Z

AT PUDAHUEL AIRPORT.

-. MR. FUENTES HAS MADE SEVERAL DONATIONS TO CHARITIES  
SUPPORTED BY THE WIFE OF GENERAL GUSTAVO LEIGH, CINC OF THE

CHILEAN AIR FORCE AND JUNTA MEMBER. FUENTES HAS ALSO SENT SEVERAL CASES OF WHISKEY TO THE HOME OF GENERAL LEIGH.

- A BODYGUARD OF PRESIDENT PINOCHET IS SOMEHOW INVOLVED WITH MR. FUENTES AND THE ILLEGAL IMPORTATION OF AKAI STEREO EQUIPMENT.

- FUENTES ALSO OBTAINS PHONY FREE ENTRY DECREES FROM MANY OTHER EMBASSIES IN SANTIAGO TO FACILITATE HIS IMPORTATION OF CONTRABAND WHISKEY AND CIGARETTES. FUENTES HAS "HIS PEOPLE" IN THE CUSTOMS, THE FOREIGN OFFICE AND CARABINEROS.

- OLIVARES STATED THAT PRIOR TO TEAMING UP WITH MR. FUENTES HE WAS INVOLVED WITH USAF (MISSION SUPPORT FLIGHT PERSONNEL) AND DAO NON-COMMISSIONED OFFICERS IN THE ILLEGAL IMPORTATION OF WHISKEY AND STEREO EQUIPMENT FOR SALE ON THE BLACK MARKET DURING THE PERIOD 1969-1974. IN THIS CONNECTION OLIVARES MENTIONED THE INVOLVEMENT OF SGTS. CASSARLY, MILCHNER AND BENAVIDES (SEE SEPTTELLM

- OLIVARES HAS SEEN PERSONS IN THE HOME OF MR. FUENTES WHO HE BELIVES WERE URUGUAYANS IN HIDING FOR SOME REASON (OLIVARES SPECULATED THAT THESE PERSONS WERE TUPAMAROS HIDING FOR THE GOC). IN ANY CASE, FUENTES TOLD OLIVARES WHEN HE SAW THESE PERSONS THAT OLIVARES SHOULD FORGET EVERYTHING HE HAD SEEN THAT DAY. THE MESSAGE WAS CONVEYED IN A THREATENING MANNER.

- OLIVARES IS DESPERATE AND CONCERNED FOR THE WELFARE OF HIS FAMILY AND FOR HIS OWN LIFE. HE SENT HIS SON TO BRAZIL APPROXIMATELY ONE MONTH AGO AND STATES THAT HE FEARS FUENTES AND HIS HIGH-LEVEL CONNECTIONS MORE THAN THE LOCAL POLICE AUTHORITIES.

9. CONCLUSIONS AND RECOMMENDATIONS. ON THE BASIS OF OUR ASSESSMENT OF THE EVIDENCE AND OUR ANALYSIS OF OLIVARES' CONFESSION AND ALLEGATIONS, WE CONCLUDE THAT SANTIAGO FSLES OLIVARES AND BLAMEY ARE GUILTY OF MALFEASANCE (THE FORMER HAS BEEN SEPARATED FOR CAUSE AND THE LATTER WILL BE AS SOON AS HE RETURNS FROM LEAVE AND CAN BE INTERVIEWED). WE ARE CONVINCED THAT THE IMPORT FIRM OF ALBERTO FUENTES Y SOMALO IS INVOLVED IN A WIDESPREAD SMUGGLING OPERATION IN CHILE USING PHONY FREE ENTRY DECREES AND CONTACTS WITHIN THE CHILEAN GOVERNMENT STRUCTURE TO IMPORT ALCOHOLIC BEVERAGES AND CIGARETTES DUTY FREE WHICH ARE THEN SOLD AT AN ENORMOUS MARK-UP BUT STILL UNDER THE SECRET

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PAGE 03     SANTIA 10075 02 OF 02 182350Z

DUTY PAID PRICE. FURTHER, WE BELIEVE THAT IT IS VERY LIKELY THAT FUENTES Y SOMALO IS INVOLVED IN SIMILAR OPERATIONS AT LEAST IN URUGUAY AND ARGENTINA AND PERHAPS IN OTHER COUNTRIES IN SOUTH AMERICA USING DOCUMENTATION SUPPLIED BY EMBASSIES TO SMUGGLE IN WHISKEY AND CIGARETTES. ON THE BASIS OF OUR INVESTIGATION WE RECOMMEND THAT:

- (A) THE GOC BE NOTIFIED OF THE DETAILS OF OUR INVESTIGATION - OBVIOUSLY THE EMBASSY SHOULD INFORM THE GOC OF THIS VIOLATION OF LOCAL LAW. THE QUESTION OF HOW WE DO SO IS IMPORTANT, HOWEVER. IF THE EMBASSY FORWARDS A COMPILATION OF DATA TO THE

FOREIGN OFFICE UNDER A NOTE THERE IS A GOOD POSSIBILITY THAT THE MATTER WILL END THERE, ALTHOUGH OLIVARES AND BLAMEY MIGHT BE IN SOME DANGER FROM A CHILEAN OFFICIALDOM THAT WISHES TO KEEP THEM QUITE. THIS WOULD HOWEVER, IMMEDIATELY SHIFT ALL FURTHER RESPONSIBILITY TO THE GOC. ALTERNATIVELY THE EMBASSY COULD PRESENT THE CASE TO THE MINISTER OF INTERIOR AND SUGGEST AN INVESTIGATION. CLEARLY, A REGIME WHICH HAS PRIDED ITSELF ON ITS HONESTY WOULD BE IN A DIFFICULT POSITION OF IT TOOK NO ACTION AND THIS CASE LATER BECAME PUBLIC EITHER IN CHILE OR THE U.S. SINCE MEMBERS OF VARIOUS CHILEAN ARMED SERVICES MAY BE INVOLVED UP TO AND INCLUDING AF CINC GENERAL LEIGH, THERE IS A POSSIBILITY THE WHO MATTER MIGHT BECOME A POLITICAL FOOTBALL. ON BALANCE OUR RECOMMENDATION WOULD BE TO FORWARD THE CASE TO THE FOREIGN OFFICE AND SIMULTANEOUSLY TO PRESENT VOTO THE MINISTER OF INTERIOR IN PERSON, FOR HIS INFORMATION AND APPROPRIATE INVESTUATION.

(B) THAT ALL OTHER U.S. EMBASSIES IN SOUTH AMERICA BE QUERIED ABOUT ANY DEALINGS WITH IMPORTING FIRMS OWNED BY ALBERTO FUENTES Y SOMALO AND WARNDENED ABOUT HIS ACTIVITIES AND MODUS OPERANDI IN CHILE.

1. ACTION REQUESTED: SINCE THIS CASE IS NOW, OR SOON WILL BE, BEFORE THE GOC, THE EMBASSY REQUEST DEPARTMENT'S GUIDANCE ON AN URGENT BASIS RE HOW TO PROCEED ON THE MATTERS RAISED IN PARA 9 ABOVE.  
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## Message Attributes

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